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C O N F I D E N T I A L SECTION 01 OF 02 JEDDAH 000414

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TAGS: [CVIS](#) [EAIR](#) [ECON](#) [KTIA](#) [PREL](#) [SA](#)
SUBJECT: SAUDIA AIRLINES HEAD ON OPEN SKIES, COMPETITION,
AND VISAS

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[B](#). 09JEDDAH 0146

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Classified By: Classified By: CG Martin R. Quinn for reasons 1.4 (b) and (d)

Summary

[1](#). (C) In an October 26 dinner conversation, the Director General of Saudi Arabian Airlines, Khalid Abdullah Almolhem, said that the company has no objection to an Open Skies Agreement (reftels) with the United States, stated that Saudia is not currently profitable because of government price caps on fares, dismissed competition from regional airlines, praised the American people, and complained about US visa procedures. End summary.

Saudi Airlines doesn't oppose Open Skies Agreement with US

[2](#). (C) Conversing at a small private dinner in Jeddah on October 26, Khalid Abdullah Almolhem, the Director General of Saudi Arabian Airlines, said his company does not object to an Open Skies agreement with the United States because the company knows US airlines have no interest in flying to Saudi Arabia and most of Saudia's passenger traffic is on domestic routes. Saudia is on the verge of signing a code share agreement with Sky Team airline alliance (which includes Delta), he added.

Saudia not profitable because of government price caps

[3](#). (C) Asked if Saudia is profitable, Almolhem replied that numbers can lie. The government price cap on fares -- particularly for domestic routes -- keeps Saudia from turning a profit and has driven new bargain airline Sama to the verge of bankruptcy. The government has refused to allow Saudia to raise fares even though operating costs, including fuel and labor have increased. The government also mandates reduced fares for large numbers of travelers, from students to senior citizens to people with disabilities. In the United States, in contrast, a board looks at costs for regulated industries like electricity and sets prices to allow for a reasonable rate of return. The Kingdom lacks a transportation policy, Almolhem commented, and the opening of the planned railway service (between Jeddah and Mecca and Medinah, and cross-country) is likely to produce further confusion in transportation prices. Once price caps are removed and the airline privatized in a few years, Almolhem expects Saudia to become profitable, despite a likely fall in the number of domestic passengers.

GCC and all business-class airlines no competition

[4](#). (C) Asked about competition from all business class airlines and regional airlines like Qatar Airways, Emirates, and Etihad, Almolhem discounted them as true competitors. All business class airlines are not viable for the Saudi market, as Saudis will not be willing (or able) to purchase business class seats for their wives, many children and servants. Saudia is not interested in emulating the Qatar or

Dubai aviation strategies, he continued. The majority of passengers flying into Qatar and the Emirates merely connect to other flights rather than staying and visiting and contributing to the local economy. Saudia is not interested in becoming an air transit hub like Doha and Dubai. It prefers to have passengers flying into the Kingdom for Haj and Umrah and staying on for several days in the Kingdom spending money. Almolhem recalled the days when Saudia provided Qatar with planes and noted that the Qatari ruler subsequently decided to spend billions of dollars to purchase new aircraft. At this time Saudia lacks the resources to modernize its fleet. It has purchased some new Airbus 320 planes, but is awaiting delivery of Boeing 787s -- which have been delayed with no anticipated delivery date specified.

Saudia no longer the royal family's private fleet

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15. (C) Asked if it is true (as commonly believed) that Saudi Arabian Airlines cancels flights unexpectedly whenever any member of the royal family wants to fly, Almolhem said this is not true -- although another guest with 14 years' experience flying in Jeddah disputed the statement. Almolhem asserted that for the past 5 or 6 years, all requests by members of the royal family to use Saudia planes have required authorization by an agency of the royal court. Saudia sets aside a certain number of planes for the Al Saud family's use, and contracts with other airlines to provide service if necessary. In the past few years, royals have become "more reasonable" and Saudia has been able to delay requests during peak periods.

Americans are "the greatest people on Earth"

16. (C) Although critical of the Bush administration's foreign policy, Almolhem lauded Americans as "the greatest people on earth." He recalled his days as a student in the United States fondly (including his TKE fraternity hazing) and said he would be happy to participate in Post outreach programs to promote US education to Saudi students. One of his sons is currently a college student in Boston, although he prefers to spend time with other Saudis and Gulf Arabs -- defeating the purpose of an American education in Almolhem's view. He also praised Americans for their friendly and courteous treatment of his hijab-wearing daughters. Almolhem criticized his own countrymen, saying they are most demanding and difficult customers, and lack a work ethic from growing up with servants. Almolhem attributed his own success to Sudi Aramco, where his father worked in food services and which provided him with everything from vaccinations to an education.

Visa issues

17. (C) Almolhem asked when the Jeddah Consulate will provide full visa services, complaining about the inconvenience and work time lost by crew members of the Jeddah-based airline having to apply for crew visas in Riyadh. Looking around the table at the Saudis -- all prominent and US-educated -- Almolhem commented that by accepting thousands of Saudi students in the 1960s, 1970s, and 1980s, the United States had ensured contacts and supporters among the Saudi elite. He continued that after 9/11 the United States closed its doors and Britain stepped in offering quick and easy visas service -- costing the US future allies. (Note: The British Deputy CG in Jeddah announced this week that its mission is opening a new VIP service aiming to issue visas within 48 hours, while reporting to have issued 78,000 visas nationwide during 2008. End note.)
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